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India's ascent: Five opportunities for growth and transformation

McKinsey Global Institute August 2016

The country could create sustainable economic conditions in five ways, such as promoting acceptable living standards, improving the urban infrastructure, and unlocking the potential of women.

Twenty-five years ago, India embarked on a journey of economic liberalization, opening its doors to globalization and market forces. We, and the rest of the world, have watched as the investment and trade regime introduced in 1991 raised economic growth, increased consumer choice, and reduced poverty significantly.

Now, as uncertainties cloud the global economic picture, the International Monetary Fund has projected that India's GDP will grow by 7.4 percent for 2016–17, making it the world's fastest-growing large economy. India also compares favorably with other emerging markets in growth potential (Exhibit 1). The country offers an attractive long-term future powered largely by a consuming class that's expected to more than triple, to 89 million households, by 2025.

Liberalization has created new opportunities. The challenge for policy makers is to manage growth so that it creates the basis for sustainable economic performance. Although much work has been done, India's transformation into a global economic force has yet to fully benefit all its citizens. There's a massive unmet need for basic services, such as water and sanitation, energy, and healthcare, for example, while red tape makes it hard to do business. The government has begun to address many of these challenges, and the pace of change could accelerate in coming years as some initiatives gain scale.

From our vantage point, India has an exciting future. In the new McKinsey Global Institute report *India's ascent: Five opportunities for growth and transformation*, we look at game-changing opportunities for the country's economy and the implications for domestic businesses, multinational companies, and the government. The five areas we focus on by no means provide a comprehensive assessment of India's prospects, but we believe they are among the most significant trends. Foreign and Indian businesses would do well to recognize these opportunities and reflect on how to exploit them.

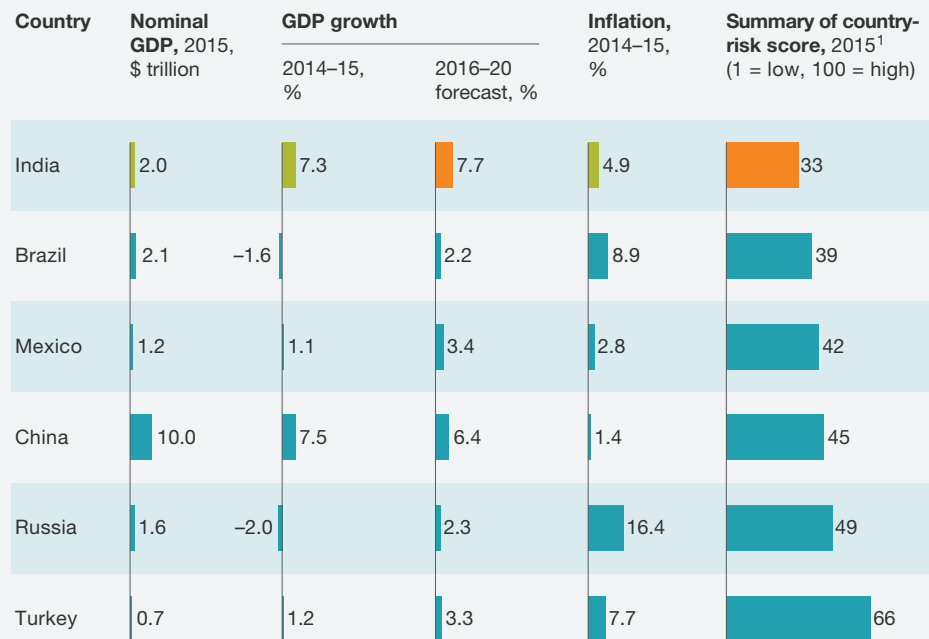
1. From poverty to empowerment: Acceptable living standards for all

The trickle-down effect of economic liberalization has lifted millions of Indians from indigence in the past two decades. The official poverty rate declined from 45 percent of the population

Exhibit 1

India's growth potential compares favorably with that of most other emerging markets.

■ First among emerging markets ■ Second or third among emerging markets



¹Composite index (political, financial, and macroeconomic).

Source: The Economist Intelligence Unit; IHS; McKinsey Global Institute analysis

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in 1994 to 22 percent in 2012, but this statistic defines only the most dismal situations. By our broader measure of minimum acceptable living standards—spanning nutrition, water, sanitation, energy, housing, education, and healthcare—we find that 56 percent of Indians lacked the basics in 2012.

The country will need to address these gaps to achieve its potential. The task is certainly within India's capacity, but policy makers will have to promote an agenda emphasizing job creation, growth-oriented investment, farm-sector productivity, and innovative social programs that help the people who actually need them. The private sector has a substantial role to play both in creating and providing effective basic services.

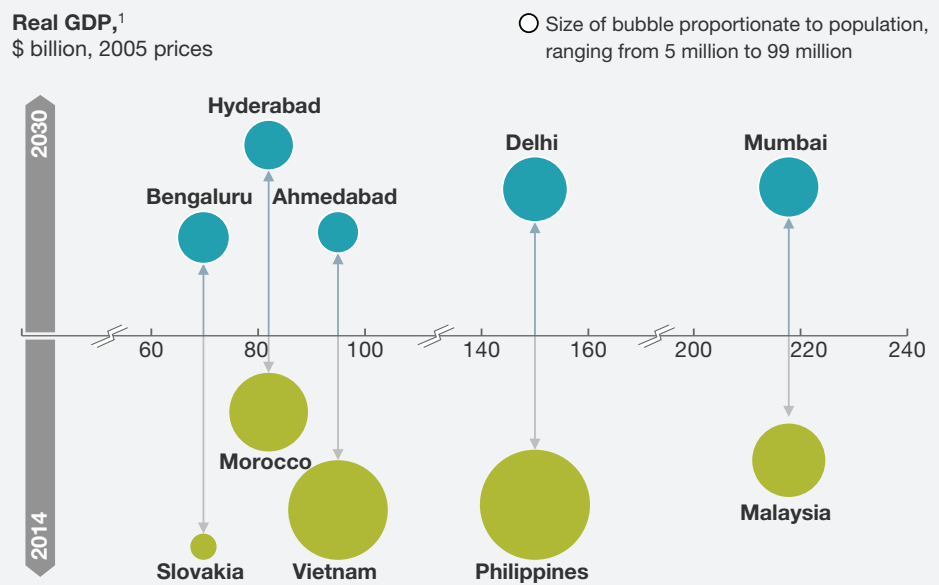
2. Sustainable urbanization: Building India's growth engines

By 2025, MGI estimates, India will have 69 cities with a population of more than one million each. Economic growth will center on them, and the biggest infrastructure building will take place there. The output of Indian cities will come to resemble that of cities in middle-income nations (Exhibit 2). In 2030, for example, Mumbai's economy, a mammoth market of \$245 billion in consumption, will be bigger than Malaysia's today. The next four cities by market size will each have annual consumption of \$80 billion to \$175 billion by 2030.

To achieve sustainable growth, these cities will have to become more livable places, offering clean air and water, reliable utilities, and extensive green spaces. India's urban transformation represents a huge opportunity for domestic and international businesses that can provide capital, technology, and planning know-how, as well as the goods and services urban consumers demand.

Exhibit 2

By 2030, the economies of India's top five cities will be comparable to those of middle-income countries today.



¹Top 5 cities, based on 2030 GDP values.

McKinsey&Company | Source: World Bank; McKinsey Global Institute analysis

3. Manufacturing for India, in India

Although India's manufacturing sector has lagged behind China's, there will be substantial opportunities to invest in value-creating businesses and to create jobs. India's appeal to potential investors will be more than just its low-cost labor: manufacturers there are building competitive businesses to tap into the large and growing local market. Further reforms and public infrastructure investments could make it easier for all types of manufacturing businesses—foreign and Indian alike—to achieve scale and efficiency.

4. Riding the digital wave: Harnessing technology for India's growth

Twelve powerful technologies will benefit India, helping to raise productivity, improving efficiency across major sectors of the economy, and radically altering the provision of services such as education and healthcare. These technologies could add \$550 billion to \$1 trillion a year of economic value in 2025, according to our analysis, potentially creating millions of well-paying, productive jobs (including positions for people with moderate levels of formal education) and helping millions of Indians to enjoy a decent standard of living.

5. Unlocking the potential of Indian women: If not now, when?


Our research suggests that women now contribute only 17 percent of India's GDP and make up just 24 percent of the workforce, compared with 40 percent globally. In the coming decade, they will represent one of the largest potential economic forces in the country. If it matched the progress toward gender parity of the region's fastest-improving country, we estimate that it could add \$700 billion to its GDP in 2025. Movement toward closing the gender gap in education and in financial and digital inclusion has begun, but there is scope for further progress.



Public-sector efforts to address the five areas are under way. The government is attempting to improve the investment climate and accelerate job creation—India's ranking on the World Economic Forum's Global Competitiveness Report climbed to 55 in 2015–16, from 71 a year earlier. Officials are moving to make the government more efficient, using technology that can leapfrog traditional bottlenecks of a weak infrastructure. One billion Indian citizens, for example, are now registered under Aadhaar, the world's largest digital-identity program and a potent platform for delivering benefits directly to the poor.

Realizing India's promise will require national, state, and local leaders to adopt new approaches to governance and the provision of services. To meet the people's aspirations, these officials will also need new capabilities. The requirements include private sector-style procurement and supply-chain expertise, deep technical skills for planning portfolios of infrastructure investments, and strong project-management capabilities to ensure that large capital projects finish on time and on budget. Training will be needed to help staff members use digital technologies to automate and reengineer processes, manage big data and advanced analytics, and improve interactions among citizens through digitized touchpoints, online-access

platforms, portals, and messaging and payment platforms. The government could acquire these capabilities by adopting quality-oriented procurement policies and taking advantage of secondments from the private sector. For businesses, India represents a sizable market but will require a granular strategy and a locally focused operating model.

No single report can capture all the changes taking place in the country, but we have tried here to identify the most significant trends. Foreign and Indian businesses should consider how their strategies will be influenced by them. Policy makers should focus on helping all stakeholders to capitalize on them. By any measure, the challenge is daunting, but success could give a historic boost to India's economy. 

[Download the full report on which this article is based, *India's ascent: Five opportunities for growth and transformation*, on McKinsey.com.](#)

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